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time buyers and users in Sinkiang admit not only the wearing quality of Soviet textiles but the ruggedness of Russian trucks, which truck drivers in Sinkiang and Northwest China consider superior to American trucks for rough work. 439

In recent years, the Soviet financial policy of enhancing the buying power of Sinkiang has taken the form of granting a 20 per cent premium in barter deals involving exchange of Sinkiang raw materials for Soviet manufactured goods. An actual example is a contract in which one package of Soviet-made cigarettes was made the unit of exchange for one catty (about 1.3 lbs.) of Sinkiang wool, at a time when the prevailing prices in Sinkiang were 8.40 Sinkiang dollars for a package of Soviet-made cigarettes and 7.00 Sinkiang dollars for a catty of wool.

In concluding this chapter, it should be said that in the year 1948 economic life in Sinkiang was in full crisis. Trade with the Soviet Union had practically ceased, and inflation within the province had become malignant. A little historical background must be sketched in to make the situation understandable. 436 457 458

The old Tsarist Russian ruble was formerly accepted in Sinkiang, and was in fact preferred to Chinese currencies. Branches of the Russo-Asiatic Bank operated in Urumchi, Kashgar, Kulja, and Chuguchak; they financed foreign trade, and provincial funds were placed on deposit with them. In 1913 the Russian ruble exchanged for eight Urumchi taels. In 1917, with the Russian Revolution, the ruble fell to .83 taels but did not collapse completely because all branches of the Russo-Asiatic Bank outside of Russia were taken under French protection and managed to keep operating for some years. By 1919, however, the old ruble was worth only .10 taels. A year or two later it was utterly worthless, while the new Soviet currency was suspect and unwanted.

A multiple provincial currency, sponsored by the Chinese Governor, Yang Tseng-hsin, then became the medium of trade and account, as described in Chapter III, by the Governor's policy of never issuing paper to the value of more than 20,000,000 taels. At the same time he allowed a number of taxes, including the land tax, to be paid in money instead of in kind. Money thus

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436 came back into the treasury as well as going out, and inflation was
457 avoided.
458 In this period the Governor allowed trade with the Soviet Union to be opened. It was carried on at first chiefly by Moslem traders, many of them Russian-born Tatars. They took goods across the Soviet frontier and sold them to the Soviet state purchasing agency, and then bought goods from state commercial agencies and returned with them to Sinkiang. Then, in 1926, the Governor allowed the Soviet-Sinkiang Trade Agency, or Sovsintorg, to begin business with offices of its own established in Sinkiang. Trade and prosperity recovered until the assassination of the conservative old Governor, who had been an able administrator, in 1928.

A new period then began, which lasted until 1934. This period was marked by the Moslem insurrections, the invasion of Chinese Moslems from Kansu, and finally the Soviet intervention — which have already been described in Chapter III. The important oases of Komul, Khotan, and Kashgar withheld their taxes from the provincial treasury, which thereupon resorted to the printing of money. The devaluation of Sinkiang currency was rapid. In 1928 it had taken only three Urumchi taels to buy a Chinese dollar; by 1934 it took forty.

In 1934 Sheng Shih-ts'ai, with Soviet support, became the successful contender in the provincial civil war. Trade with the Soviet Union was restored, but it took some years to stabilize the currency. Then, in 1939, a new inconvertible paper currency was issued by the Provincial Commercial Bank as the only legal tender in the province. It is generally believed in Sinkiang that the success of this monetary reform was made possible by loans without interest from the Soviet Union.

In 1942, however, Sheng Shih-ts'ai came to the conclusion that the Soviet Union would either be defeated by Germany or would not recover its former power. Hitherto he had pursued a reform policy, both political and economic. From this time on, he began to combine printing-press inflation with trade monopoly and the

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ollection of the land tax and livestock taxes in kind, refusing for 436
.ie receipt of taxes the money issued by his provincial treasury. 457
He had already set up a Provincial Trading Company, which was 458
is personal agent in business; but up to this time it had com-
eted with private trade. In Kashgar, for instance, it handled only
bout 28 per cent of the trade, less than the proportion handled
y an Uighur firm called "Ittifatsherket." In 1942, however, a monopoly of provincial trade was granted to the Provincial Trading Company, which operated on a capital of 2,500,000 United States dollars. Through this company the Governor purchased wool, livestock, cotton, furs, and other products at compulsory prices lower than the market prices, transported them on his own trucks, and sold them to Sovsintorg in exchange for Soviet manufactures. Until 1943 raw materials, though bought at compulsory prices, were paid for in manufactured goods; but further inflationary pressure was then created by paying for such purchases only partly in goods and partly in paper money. The Khotan branch of the monopoly, for instance, paid only 15 per cent of the price of furs and 20 per cent of the price of silk and cocoons with manufactured goods. The abuses of this monopoly caused so much discontent that General Chang Chih-chung was compelled to liquidate the company in 1946.

A new period began in 1943. Governor Sheng, having miscalculated the strength of the Russians, was cold-shouldered by them and had to come to terms with the National Government. The already badly inflated currency of the National Government began to pour into the province, adding to the existing provincial inflation. In 1943 the Provincial Commercial Bank alone was receiving national currency notes at the rate of a million dollars a day. The price index of wheat flour, taking June 1940 as 100, had already increased to 865 by December 1942. In 1945 it jumped to 75,000 and by September 1947 it was 517,500.

Inflation was compounded with other critical developments, 178
some of which had been long maturing, to form an explosive situ- 458
ation. In the first place, there has been a large increase of popula- 47